

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Report of the Chief Investment Officer

ITEM NUMBER: 15

ATTACHMENTS: 5

ACTION: _____

DATE OF MEETING: February 6, 2002

INFORMATION: X

PRESENTER: Christopher J. Ailman

The following is a brief summary of the developments that have occurred in the financial markets from December 31, 2001 through January 14, 2002. Also listed is a comparison of the same indices for the current fiscal year to date. This is intended to provide a short overview of the activity that has occurred between the date of the attached report and the mailing date of the packet. The CIO will provide a further verbal update at the meeting.

	Dec. 31, 2001	Jan. 14, 2002	Direction
Interest rates:			
Federal Funds (target)	2.00%	1.75%	↕ Trading range
10-year U.S. Treasury Note yield	4.30%	4.87%	↑ Up 57 BP
30-year U.S. Treasury Bond yield	5.46%	5.38%	↓ Down 8 BP
U.S. Equity market:			
Russell 3000 Index	634.16	628.93	↓ Down 5.23
S&P 500 Index	1148.08	1138.41	↓ Down 9.67
NASDAQ Index	1950.40	1990.74	↑ Up 40.34
Non-U.S. Equity market:			
MSCI ACWI free (ex. U.S.)	152.92	149.64	↓ Down 3.28
MSCI EAFE	1154.96	1123.89	↓ Down 31.07
MSCI Emerging Markets	317.40	325.55	↑ Up 8.15
Currencies:			
Euro in U.S.\$.89	.89	↕ Trading range
Yen per U.S. \$	131.67	132.00	↕ Trading range
British Pound in U.S.\$	1.46	1.45	↕ Trading range
Commodities:			
Crude Oil per barrel	\$19.84	\$18.89	↓ Down \$0.95
Gold	\$278.70	\$285.40	↑ Up \$6.70
Mega Watt Hour (CA-OR on-peak)	\$26.63	\$22.25	↓ Down \$4.38

This chart provides an overview of changes in the financial markets since the beginning of the Fiscal Year.

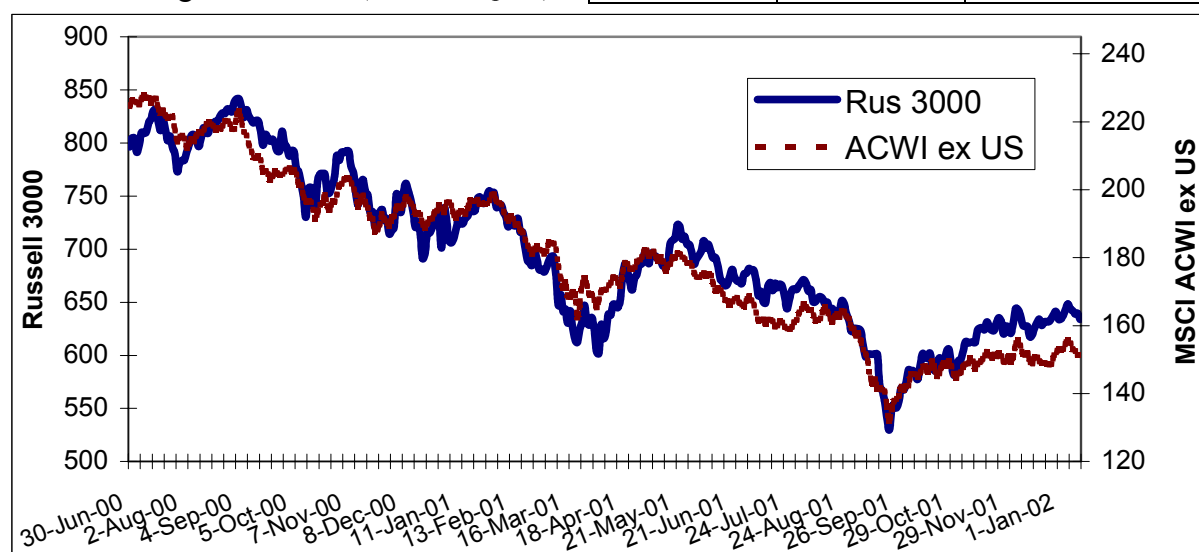
	June 30, 2001	Jan. 14, 2002	Direction
Interest rates:			
Federal Funds	4.00%	1.75%	↓ Down 225 BP
10-year U.S. Treasury Note yield	5.39%	4.87%	↓ Down 52 BP
30-year U.S. Treasury Bond yield	5.74%	5.38%	↓ Down 36 BP

U.S. Equity market:			
Russell 3000 Index	677.35	628.93	↓ Down 48.42
S&P 500 Index	1224.42	1138.41	↓ Down 86.01
NASDAQ Index	2160.54	1990.74	↓ Down 169.80

Non-U.S. Equity market:			
MSCI ACWI free (ex. U.S.)	167.46	149.64	↓ Down 17.82
MSCI EAFE	1261.49	1123.89	↓ Down 137.60
MSCI Emerging Markets	322.89	325.55	↑ Up 2.66

Currencies:			
Euro in U.S.\$.85	.89	↓ Weaker U.S. \$
Yen per U.S. \$	124.72	132.00	↑ Stronger U.S. \$
British Pound in U.S.\$	1.41	1.45	↓ Weaker U.S. \$

Commodities:			
Crude Oil per barrel	\$26.24	\$18.89	↓ Down \$7.35
Gold	\$270	\$285.40	↑ Up \$15.40
Mega Watt Hour (CA-OR on-peak)	\$81	\$22.25	↓ Down \$58.75





CalSTRS INVESTMENT COMMITTEE

Chief Investment Officer Report

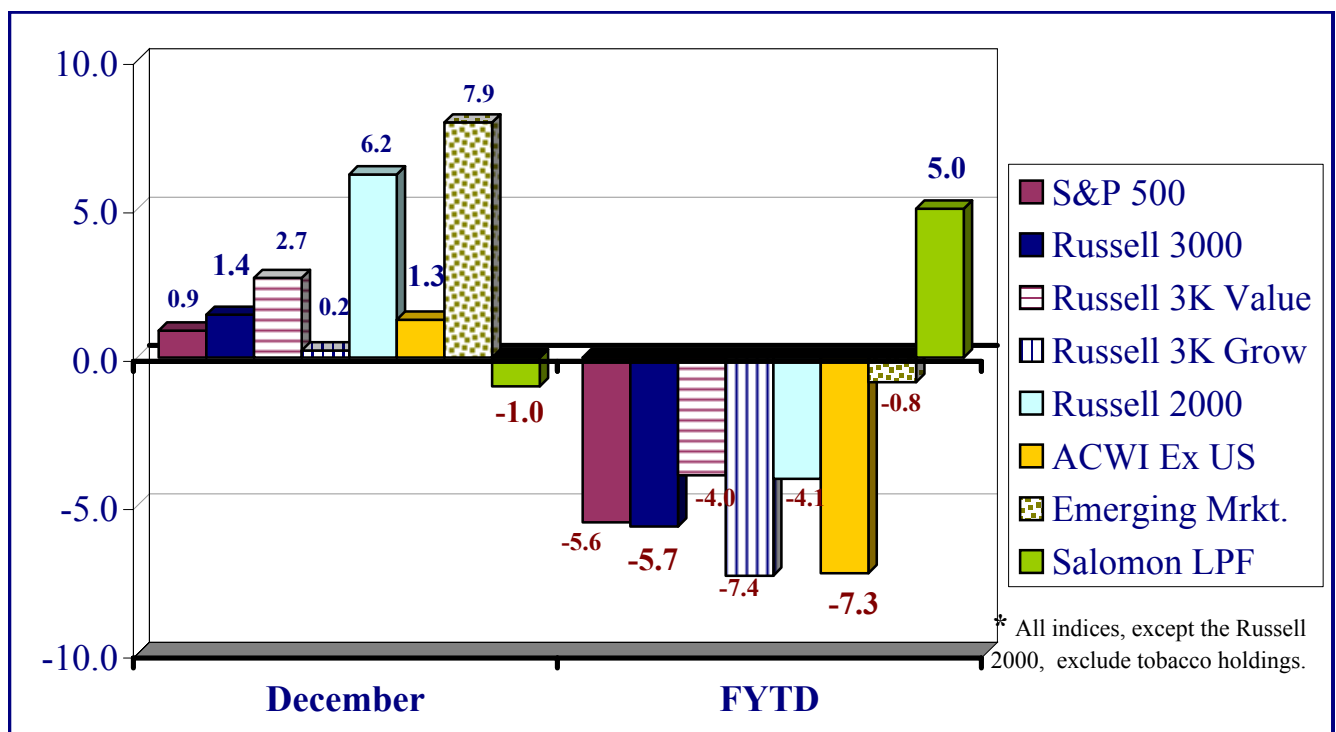
Capital Market Environment

December 31, 2001

Russell 3000 January 1, 1999 - January 11, 2002 (Weekly Price)



Capital Market Returns - Month of December and Fiscal Year to Date



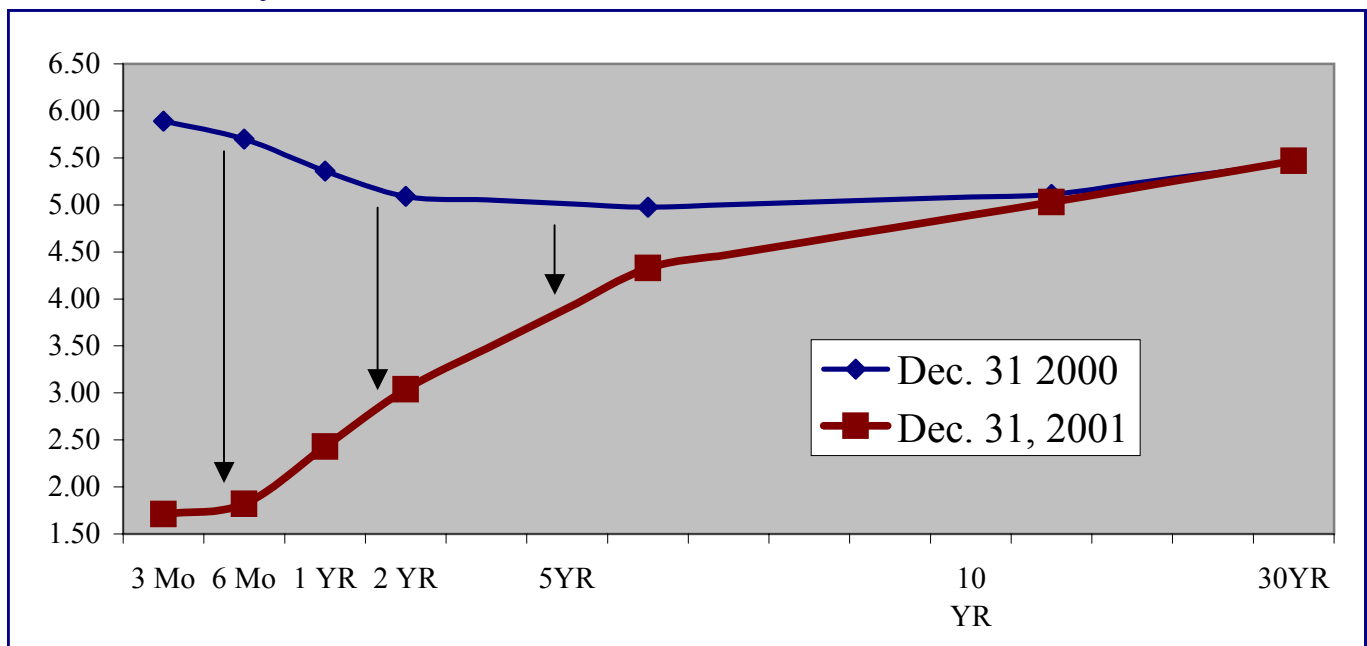
Capital Markets Data 2001 in Review



Russell 3000 Daily close in 2001



U.S. Treasury Yield Curve Dec. 31, 2000 compared to Dec. 31, 2001

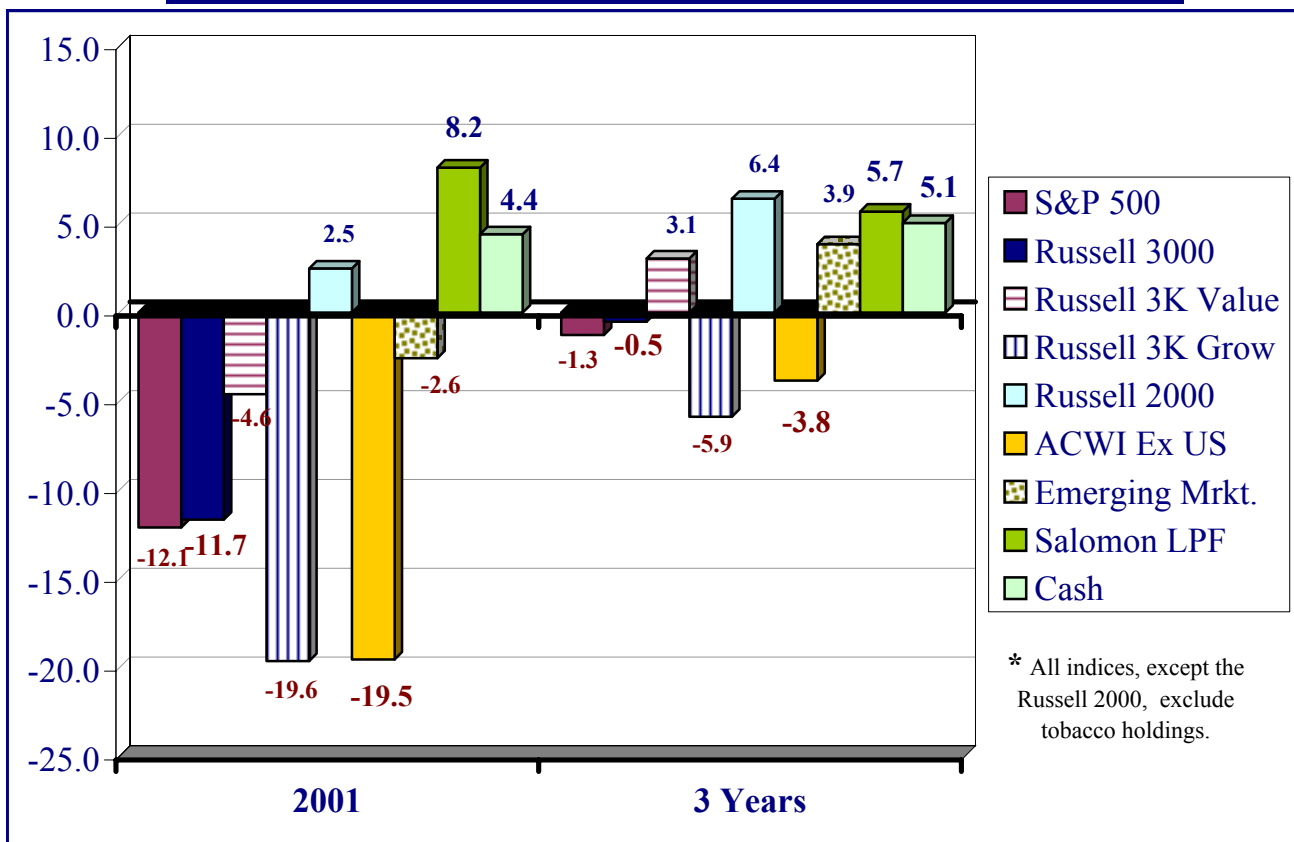


Capital Markets Data 2001 in Review



Capital Market Returns for 2001 and the 3 years ending December 31, 2001

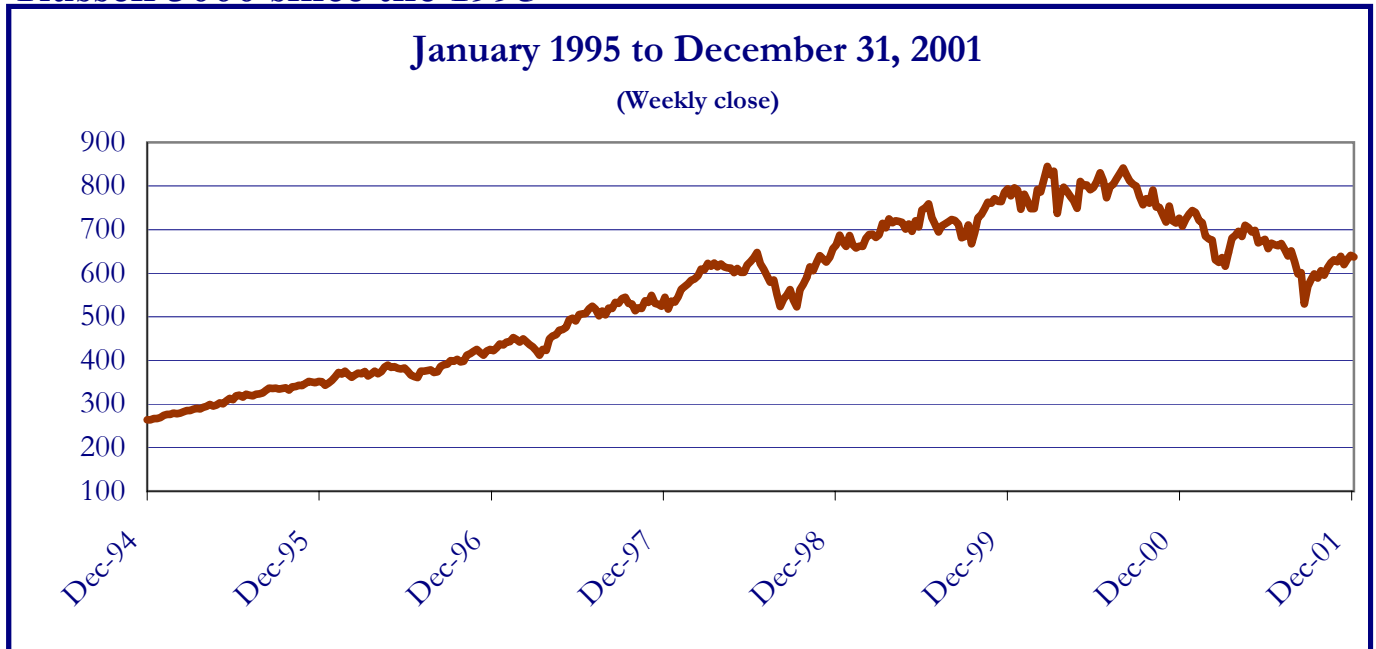
	2001	3 Years
S&P 500	-12.1	-1.3
Russell 3000	-11.7	-0.5
Russell 3K Value	-4.6	3.1
Russell 3K Grow	-19.6	-5.9
Russell 2000	2.5	6.4
ACWI Ex US	-19.5	-3.8
Emerging Mrkt.	-2.6	3.9
Salomon LPF	8.2	5.7
Cash	4.4	5.1



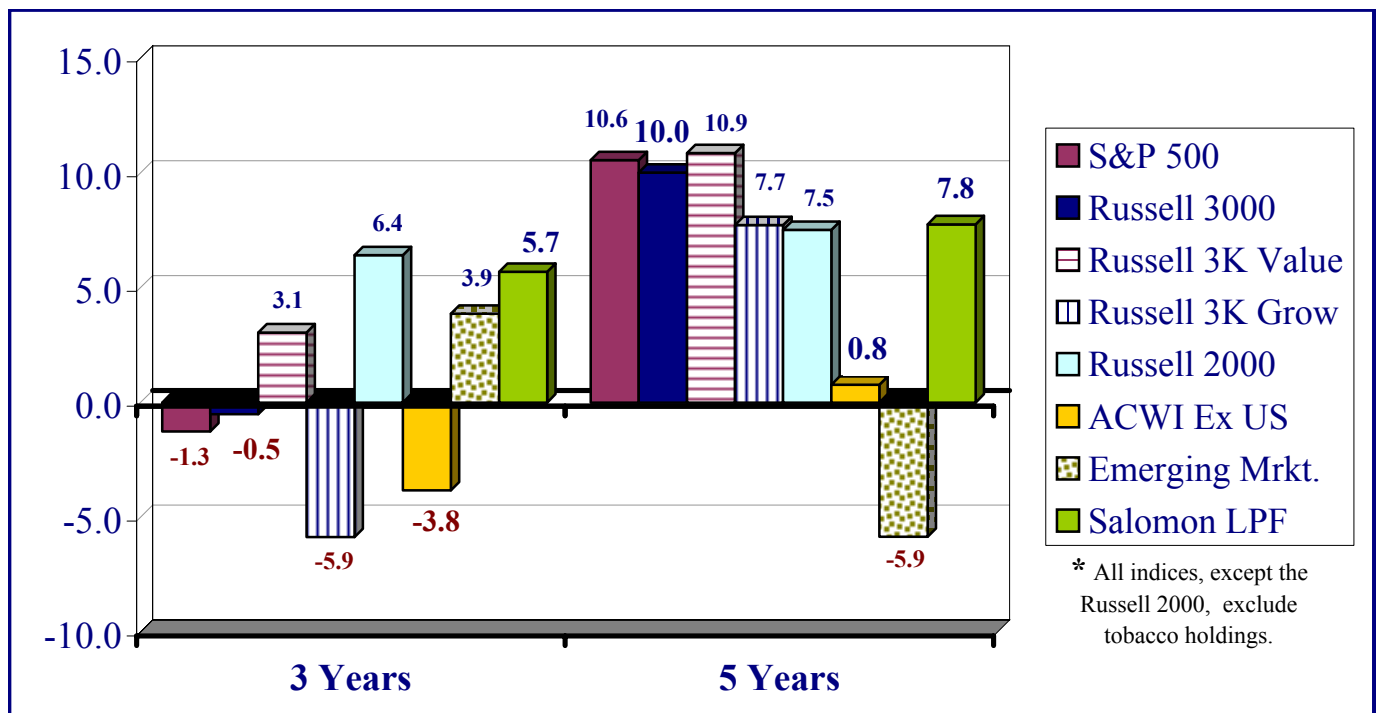
Review of Long-Term Capital Markets Data



Russell 3000 since the 1995



Capital Market Returns - For the 3 & 5 years ending December 31, 2001





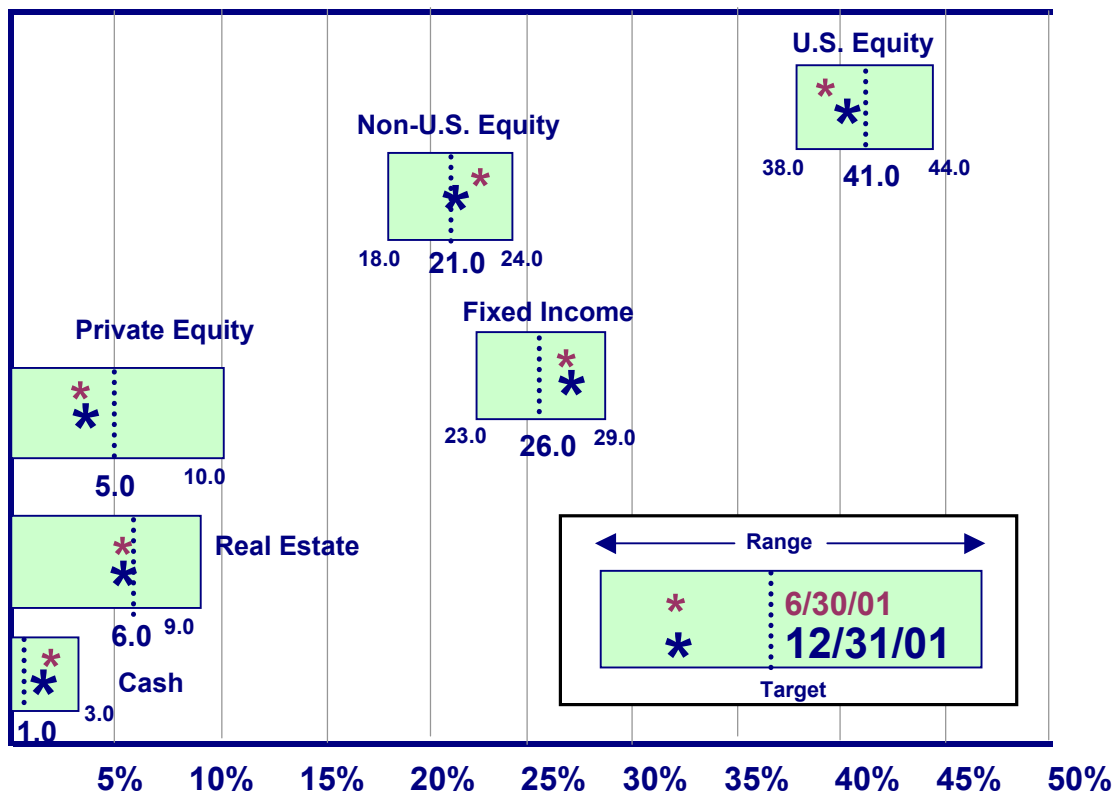
CalSTRS Retirement Fund Monthly Asset Allocation Report

As of December 31, 2001

	FY '01-'02 TARGETS	ACTUAL December-01	Off Target (000s)
U.S. Equity	41%	40.3%	\$ (747,935)
Non-U.S. Eq.	21%	21.0%	\$ 20,537
Fixed Income	26%	27.7%	\$ 1,710,061
Private Equity	5%	4.3%	\$ (674,079)
Real Estate	6%	5.2%	\$ (825,511)
Cash	1%	1.5%	\$ 516,925

Current Allocation

versus Long Term Targets and Policy Ranges



Investment Summary - Market Value (amounts in millions)												
Asset	This Month		One Year Ago		Three Years Ago		Five Years Ago					
Domestic Equity	\$	40,578	40.3%	\$	41,997	39.0%	\$	41,327	44.3%	\$	22,357	32.9%
International Equity		21,188	21.0%		25,360	23.6%		19,872	21.3%		12,098	17.8%
Fixed Income		27,917	27.7%		29,185	27.1%		26,102	28.0%		25,478	37.5%
Global Asset Allocators		N/A	N/A		N/A	N/A		1,198	1.3%		2,587	3.8%
Real Estate		5,222	5.2%		4,134	3.8%		2,084	2.2%		1,809	2.7%
Alternative Investments		4,366	4.3%		5,258	4.9%		2,182	2.3%		1,253	1.8%
Liquidity		1,526	1.5%		1,723	1.6%		582	0.6%		2,320	3.4%
Total Market Value	\$	100,797	100.0%	\$	107,657	100.0%	\$	93,347	100.0%	\$	67,902	100.0%

Performance Returns for Major Asset Categories						
Asset	Month	Fiscal YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity	1.65	-5.37	-11.41	-0.15	9.67	12.22
Int'l Equity	1.28	-7.57	-19.14	-2.34	1.54	N/A
Fixed Income	-0.95	5.26	8.27	5.56	7.95	8.06
Real Estate	N/A	N/A	12.97	12.00	15.07	7.74
Alternative Investments	N/A	N/A	-20.80	17.13	20.03	19.60
Liquidity	0.27	2.44	5.90	6.17	6.13	5.64
Total Fund	0.28	-2.06	-7.03	2.34	7.87	9.07
Indicies						
Domestic Equity Custom *	1.44	-5.69	-11.66	-0.51	10.01	12.53
MSCI AC ex US *	1.27	-7.27	-19.53	-3.83	0.77	4.55
Salomon LPF	-0.97	5.01	8.17	5.69	7.76	7.95
Real Estate Custom	N/A	N/A	9.52	10.80	12.04	7.41
T-Bill	0.18	1.56	4.09	4.92	5.01	4.69
Consumer Price Index	-0.39	-0.73	1.55	2.54	2.19	2.51
Russell 3000 *	1.44	-5.69	-11.66	-0.51	10.01	12.58
MSCI EAFE *	0.58	-8.08	-21.47	-5.08	0.87	4.45
MSCI Emerging Mkt Free*	7.92	-0.83	-2.57	3.86	-5.85	2.98
LB Gov / Corp	-0.79	4.82	8.51	5.89	7.36	7.27

Allocations of Cash and Reallocations of Assets (does not include changes in the market value)		
	Current Month	Past 12 Months
Cash Inflow:		
Contributions & misc receipts	\$ 345.0	\$ 4,512.0
Less: Benefits & misc. payments	\$ (40.9)	\$ (4,330.8)
Investment Income	\$ 294.5	\$ 3,792.3
Total Cash Inflow	\$ 598.6	\$ 3,973.5
Cash Allocation:		
Domestic Equity	\$ 234.2	\$ 3,745.2
International Equity	\$ 19.0	\$ 1,196.4
Fixed Income	\$ (233.3)	\$ (1,782.1)
Real Estate	\$ 53.9	\$ 723.5
Alternative Investments	\$ 60.9	\$ 349.5
Liquidity	\$ 464.0	\$ (259.1)
Total Cash Allocation	\$ 598.6	\$ 3,973.5

* Indicies reflect ex Tobacco returns beginning 9/1/2000

Asset Allocation Percentage				
Assets	Actual	Target	Difference	Range
Public Equity	61.3%	62.0%	(0.7%)	56 - 68
Public Fixed Income	29.2%	27.0%	2.2%	23 - 32
Private Equity	9.5%	11.0%	(1.5%)	8 - 14
Total Investment Assets	100.0%	100.0%		
Which can be compared to the strategic targets				
Active - Domestic Equity	8.5%	8.2%	0.3%	5-11
Passive - Domestic Equity	31.8%	32.8%	(1.0%)	30-36
TOTAL DOMESTIC EQUITY	40.3%	41.0%	(0.7%)	38 - 44
Active - International Equity	9.3%	10.5%	(1.2%)	7 - 14
Passive -International Equity	11.7%	10.5%	1.2%	7 - 14
TOTAL NON-US EQUITY	21.0%	21.0%	0.0%	18 - 24
TOTAL PUBLIC EQUITY	61.3%	62.0%	(0.7%)	56 - 68
Real Estate	5.2%	6.0%	(0.8%)	
Alternative Investments	4.3%	5.0%	(0.7%)	
TOTAL PRIVATE EQUITY	9.5%	11.0%	(1.5%)	8 - 14
Domestic Fixed Income	27.7%	26.0%	1.7%	23 - 29
Liquidity	1.5%	1.0%	0.5%	0 - 3
TOTAL FIXED & LIQUIDITY	29.2%	27.0%	2.2%	23 - 32
TOTAL INVESTMENT ASSETS	100.0%	100.0%		

Currency Hedging - Market Value (amounts in millions)

Managers	Pacific Basin	European	Total
Active International	\$ 2,543.14 6.5%	\$ 6,150.81 0.2%	\$8,693.95 2.0%
Passive International	\$ 2,729.37 20.4%	\$ 7,686.04 0.0%	\$10,415.41 5.3%

* Does not include emerging market securities, Canadian stocks, cash or accruals.

Currency Realized Gains/(Losses) (amounts in millions)

Managers	Currency Realized Gains/(Losses)		
	1 Month	1 Year	Since Inception
Active International	\$1.89	\$24.43	\$100.27
Passive International	\$6.35	\$152.97	\$605.02

Securities Lending Income

Asset	Current Fiscal Year 7/01-12/01	vs.	Prior Fiscal Year 7/00-12/00
Domestic Equity	\$10,978,854		\$5,242,172
International Equity	\$15,587,547		\$11,396,174
US Treasury	\$19,507,664		\$7,873,871
Other Fixed Income Securities	\$1,542,420		\$317,786
Total Income	<u>\$47,616,485</u>		<u>\$24,830,003</u>

Securities Lending (On-Loan/Collateral Summary)

Asset	Securities On-Loan	Collateral Valuation	Percent
Domestic Equity	\$2,783,820,565	\$2,906,570,906	104%
International Equity	\$3,650,055,855	\$3,841,543,320	105%
US Treasury	\$8,442,975,161	\$8,663,058,161	103%
Other Fixed Income Securities	\$306,608,776	\$313,920,685	102%
Total Value	<u>\$15,183,460,357</u>	<u>\$15,725,093,072</u>	104%

California State Teachers' Retirement System

Attachment 4

Investment Committee - Item 15

Monthly Investment Summary - In~Sight

Page 1 of 2

	Market Value			Market Value		Market Value	
	11/30/01	Market %		12/31/01	Market %	Difference	% Diff.
<i>Liquidity</i>							
Cash Allocation	923,036,713			1,393,129,795		470,093,082	
US Cash Equitization	130,523,504			131,767,673		1,244,169	
Total Liquidity	1,053,560,217	1.05%		1,524,897,468	1.51%	471,337,251	0.46%
<i>Domestic Equity</i>							
Active							
Ariel Capital	480,831,950			509,637,273		28,805,323	
BGI - Enhanced	601,744,339			606,291,590		4,547,251	
Brinson Partners	595,548,884			606,297,262		10,748,378	
Brown Capital Management	359,248,448			357,884,059		(1,364,389)	
Chicago Equity Partners	439,733,533			443,781,965		4,048,432	
Delaware Investment Adv	449,655,896			458,376,801		8,720,905	
Delphi Management, Inc	211,394,439			223,774,811		12,380,372	
Denver Investment Advisors	585,124,157			607,688,564		22,564,407	
DSI International Management	654,158,625			659,967,021		5,808,396	
First Quadrant	433,414,278			438,842,224		5,427,946	
Mellon Capital Management	539,513,017			545,237,165		5,724,148	
NCM Capital Management	440,663,439			441,320,112		656,673	
Putnam Investments	327,690,961			327,145,842		(545,119)	
Sasco Capital	772,466,177			807,264,450		34,798,273	
SSgA - Enhanced	656,986,443			662,697,329		5,710,886	
TCW Asset Manangement Co	270,108,808			284,445,037		14,336,229	
Passive							
BGI Extended Market Index	2,898,834,608			3,002,413,068		103,578,459	
BGI S&P 500 Index	12,523,767,749			13,364,049,879		840,282,129	
SSgA - Extended Mkt Index	2,104,738,436			2,284,729,912		179,991,476	
STRS S&P 500 Index	12,538,379,730			13,383,448,461		845,068,731	
Transition							
STRS Domestic	1,881,302,791			563,607,770		(1,317,695,021)	
Total Domestic Equity	39,765,306,710	39.63%		40,578,900,595	40.26%	813,593,885	0.63%
<i>International Equity</i>							
Active							
Bank of Ireland Asset Management	801,386,828			818,255,500		16,868,672	
Battery March Financial Mgmt Inc	376,918,028			383,452,196		6,534,168	
Blackrock, Inc.	235,601,776			231,110,426		(4,491,350)	
Brinson Partners Non-USEQ	421,166,779			424,682,632		3,515,854	
Capital Guardian Trust	1,159,810,163			1,171,110,560		11,300,397	
Delaware Int'l Advisors Inc.	446,335,618			450,287,001		3,951,383	
Fidelity Management Co.	440,018,705			450,690,419		10,671,715	
Fiduciary Trust	523,126,622			531,390,398		8,263,776	
Goldman Sachs Asset Mgmt	341,667,287			345,144,263		3,476,977	
Lazard Freres	711,459,426			717,401,882		5,942,456	
Marvin & Palmer Assoc, Inc.	390,271,390			383,324,129		(6,947,261)	
Morgan Stanley	712,981,379			718,537,304		5,555,925	

California State Teachers' Retirement System

Attachment 4

Investment Committee - Item 15

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Monthly Investment Summary - In~Sight

	Market Value		Market Value		Market Value	
	11/30/01	Market %	12/31/01	Market %	Difference	% Diff.
Newport Pacific Mgmt	219,249,924		219,244,785		(5,139)	
Nicholas-Applegate Capital Mgmt	405,454,505		410,915,131		5,460,626	
Oechsle International	985,090,510		1,017,336,025		32,245,514	
Schroder Capital	492,507,544		475,912,244		(16,595,300)	
Scudder Kemper Investments	645,495,267		656,333,660		10,838,393	
Passive						
BGI - EAFE Index	6,253,392,532		6,310,347,735		56,955,203	
SSgA - EAFE Index	4,126,492,145		4,163,326,139		36,833,994	
SSgA - Emerging Market Index	1,241,612,657		1,309,129,230		67,516,573	
Transition						
STRS International	9,770		9,735		(35)	
Total International Equity	20,930,048,854	20.86%	21,187,941,395	21.02%	257,892,541	0.16%
Fixed Income						
Corporate Bond Index	9,553,804,266		9,450,871,513		(102,932,753)	
Mortgage Backed Security Index	8,160,414,360		8,076,989,069		(83,425,291)	
Mortgage Loan	722,718,021		738,132,293		15,414,272	
US Treasury & Agency Index	10,095,281,757		9,651,329,841		(443,951,915)	
Total Fixed Income	28,532,218,404	28.43%	27,917,322,716	27.70%	(614,895,687)	(0.74%)
Real Estate						
CB Richard Ellis	1,618,576,204		1,600,213,857		(18,362,347)	
Clarion Partners, LLC	402,247,170		397,000,054		(5,247,115)	
Heitman Capital Management	393,729,622		385,748,026		(7,981,596)	
Lend Lease	1,156,599,899		1,153,030,355		(3,569,544)	
Lowe Enterprises Inv Mgmt	166,352,959		157,242,115		(9,110,844)	
MIG Realty Advisors	379,089,015		377,566,430		(1,522,585)	
Sentinel Realty Advisors	42,522,190		42,253,053		(269,138)	
Special Situations	440,340,909		452,529,074		12,188,165	
SSR Realty Advisors	502,563,775		497,710,882		(4,852,893)	
Thomas Properties Group	160,119,366		159,024,875		(1,094,491)	
Total Real Estate	5,262,141,109	5.24%	5,222,318,720	5.18%	(39,822,389)	(0.06%)
Alternative Investments						
Distributed Stock	9,130,404		13,031,251		3,900,847	
Limited Partnerships	4,799,848,230		4,352,747,704		(447,100,527)	
Total Alternative Investments	4,808,978,634	4.79%	4,365,778,955	4.33%	(443,199,679)	(0.46%)
Grand Total	<u>100,352,253,927</u>	100.00%	<u>100,797,159,849</u>	100.00%	<u>444,905,922</u>	

PLEASE NOTE:

All Figures Include Accruals

The Information contained in this report is UNAUDITED

Member Home Loan Securitization Principal Balance as of 12/31/2001 is \$80,621,398

The Internally Managed Cash Collateral Portfolio is NOT included above.

The Net Asset Value as of 12/31/2001 is \$6,470,924,460

California State Teachers' Retirement System
Internal S&P 500 ex-Tobacco Indexed Portfolio

The California State Teachers' Retirement System's internal S&P 500 ex-Tobacco Indexed Portfolio (Portfolio) was \$13,383,448,461 as of December 31, 2001. The Portfolio seeks to closely track the return of the custom S&P 500 ex-Tobacco Index².

Table 1 below shows the returns of the Portfolio¹.

Table 1: Performance as of December 31, 2001

Period	Portfolio	Index	Tracking Error
Total Return			
1998, Apr-Dec	+12.892%	+12.975%	-0.084%
1999	+21.111%	+20.987%	+0.124%
2000	-9.450%	-9.486%	+0.036%
2001	-12.060%	-12.098%	+0.038%
Annualized Return			
1 Year	-12.060%	-12.098%	+0.038%
2 Years	-10.765%	-10.801%	+0.036%
3 Years	-1.201%	-1.262%	+0.061%

¹ Inception date of March 31, 1998

² Effective September 1, 2000, the benchmark for the CalSTRS S&P 500 ex-Tobacco Indexed Portfolio is the custom S&P 500 ex-Tobacco Index